

Message Text

CONFIDENTIAL

PAGE 01 BONN 03338 01 OF 02 231501Z
ACTION EB-08

INFO OCT-01 ISO-00 AF-10 ARA-10 EA-10 EUR-12 NEA-10
L-03 FRB-03 OMB-01 ITC-01 SP-02 AGRE-00 AID-05
CIAE-00 COME-00 INR-10 IO-13 LAB-04 NSAE-00
OIC-02 SIL-01 STR-07 TRSE-00 CEA-01 SS-15 INRE-00
SSO-00 USIE-00 /129 W
-----000084 231518Z /50

O R 231446Z FEB 78
FM AMEMBASSY BONN
TO SECSTATE WASHDC IMMEDIATE 6125
INFO AMEMBASSY JAKARTA
AMEMBASSY BANGKOK
AMEMBASSY KUALA LUMPUR
AMEMBASSY SINGAPORE
AMEMBASSY COLOMBO
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY TOKYO
AMEMBASSY BRUSSELS
AMEMBASSY OTTAWA
AMEMBASSY MOSCOW
USMISSION GENEVA

C O N F I D E N T I A L SECTION 01 OF 02 BONN 03338

USEEC

E. O. 11652: GDS
TAGS: UNCTAD, ETRD, EPAP, GW
SUBJ: UNCTAD THIRD PREPARATORY MEETING ON RUBBER,
FEBRUARY 27 - MARCH 3

REF: STATE 44156

1. SUMMARY. EMBOFF CONVEYED SUBSTANCE OF REFTEL IN
MINISTRY OF ECONOMICS TO DR. KIPPER, CHIEF, BASIC
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PAGE 02 BONN 03338 01 OF 02 231501Z

MATERIALS POLICY DIV. AND DR. KNOTE, HEAD OF FRG
DELEGATION TO UNCTAD MEETING. KIPPER, WHILE NOT
ENTHUSIASTIC ABOUT DECISION TO ENTER NEGOTIATIONS, SAID
THE MOVE HAD PROBABLY BEEN INEVITABLE. HE THANKED US
FOR INFORMING HIM OF US THINKING, SAYING IT WOULD VERY
MUCH HELP THE FRG AND THE EC IN FORMULATING FINAL VIEWS
ALONG LINES SIMILAR TO US POSITION.

2. HE WENT ON TO RAISE A NUMBER OF POINTS WHERE HE THOUGHT DIFFICULTIES WOULD EMERGE AND ASKED US TO PASS ON HIS THOUGHTS TO THE DEPARTMENT. HE HOPED THAT FREQUENT INFORMAL EXCHANGES OF VIEW WOULD BE POSSIBLE. END SUMMARY.

3. THE FIRST PROBLEM HE RAISED WAS: WHAT METHOD IS TO BE USED TO DETERMINE RUBBER PRICES UNDER AN INTERNATIONAL COMMODITY AGREEMENT (ICA)? HE NOTED THAT IT WAS CERTAINLY POSSIBLE TO ARRIVE AT AN INITIAL LONG TERM TREND PRICE ON THE BASIS OF HISTORICAL DATA AND TO SET PRICE BANDS AROUND IT. SINCE PRICES ARE SUBJECT TO BOTH SHORT TERM FLUCTUATIONS AS WELL AS LONG TERM SHIFTS IN THE TREND, HOWEVER, KIPPER WONDERED WHAT MECHANISM COULD BE USED WHICH WOULD SATISFACTORILY TAKE BOTH OF THESE MOVEMENTS INTO ACCOUNT AND WHICH WOULD ENSURE THAT SUBSEQUENT SHIFTS IN THE PRICE BAND WERE NOT GETTING FURTHER AND FURTHER AWAY FROM THE "REAL" LONG-TERM PRICE TREND LINE? HE SAID THE EC WAS STRUGGLING WITH THIS PROBLEM BUT HAD YET TO ARRIVE AT A SATISFACTORY CONCLUSION; HE ADDED, THE EC WAS TENTATIVELY USING AS ITS BAND A SPREAD OF 7.5 PER CENT ON EITHER SIDE OF THE MID-POINT PRICE.

4. A SECOND CONCERN RAISED WAS THE USE OF PRODUCTION
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PAGE 03 BONN 03338 01 OF 02 231501Z

COSTS AS A BASIS FOR SETTING PRICES. THE QUESTION WAS: HOW DOES ONE AVOID MANIPULATION OF PRODUCTION COSTS ON THE PART OF PRODUCERS? KIPPER FELT THAT THE HISTORICAL RECORD ON THIS PROCEDURE WAS NOT ENCOURAGING. HE ASKED FOR THE US VIEW ON HANDLING THE INCLUSION OF GOVERNMENT LEVIES AND GOVERNMENT OWNED/OPERATED ENTERPRISES IN THE COST CALCULATIONS. HE NOTED THAT RAISING THE MINIMUM PRICE OF A PRODUCT IN ORDER TO ENCOURAGE INCREASED PRODUCTION WAS IN MANY CASES NOT EFFECTIVE, BECAUSE THE BENEFITS FROM THE PRICE INCREASE WERE NOT ALLOWED TO FLOW DOWN TO SMALL GROWERS OR MINERS, AS GOVERNMENTS HAD ALREADY SCOOPED OFF THE INCREASE FOR THEMSELVES VIA HIGHER LEVIES IN ONE FORM OR ANOTHER. HE ALLUDED TO COCOA AND TIN AS CASES IN POINT. THE NET RESULT WAS OFTEN THAT THERE WAS NO INCREASE IN PRODUCTION RESPONDING TO THE HIGHER PRICE.

5. LOOKING EVEN FURTHER AHEAD, KIPPER SAID THAT ONCE AN ICA FOR NATURAL RUBBER CAME INTO BEING AND ONCE ICA SET PRICES GOT OUT OF LINE WITH THE "REAL" PRICE, ONE COULD EXPECT A GOOD DEAL OF COMPETITION FROM THE

SYNTHETICS: ETHYLENE BASED RUBBER, POLYURETHANE,
ETC. AT THAT POINT HE FEARED THERE WOULD BE EXTREME
PRODUCER PRESSURE TO EXPAND THE ICA TO INCLUDE
SYNTHETICS AND TO PROTECT NATURAL RUBBER. THIS IS
SOMETHING THE FRG WOULD STRONGLY OPPOSE.

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PAGE 01 BONN 03338 02 OF 02 231504Z
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C O N F I D E N T I A L SECTION 02 OF 02 BONN 03338

6. EMBOFF ASKED ABOUT THE ATTITUDE OF GERMAN INDUSTRY
TOWARD AN ICA. KIPPER SAID THAT THEY UNIFORMLY OPPOSED
IT AND THAT THEY WERE ALREADY WELL ALONG WITH PLANS TO
EXPAND THEIR PRODUCTION OF SYNTHETIC RUBBER. THE
INDUSTRY BELIEVES THE PROSPECTS FOR INCREASED PRODUCTION
OF SYNTHETICS ARE GOOD, BECAUSE OF THE AMOUNT OF NATURAL

RUBBER WHICH NEEDS TO BE USED IN TIRE-MAKING IS DECREASING WITH CHANGING TECHNOLOGY WHERE SYNTHETIC CAN
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PAGE 02 BONN 03338 02 OF 02 231504Z

BE SUBSTITUTED. IN ADDITION, ETHYLENE, HE SAID, HAD BECOME A "DRUG ON THE MARKET" OVER THE PAST FEW YEARS, WHICH HAD IN TURN LED MANY COUNTRIES TO ENCOURAGE CONSTRUCTION OF SYNTHETIC RUBBER PLANTS WHICH USE ETHYLENE AS THEIR BASIC RAW MATERIAL INPUT. HE POINTED OUT, THIS WAS PARTICULARLY THE CASE IN THE USSR, WHICH HAD ALREADY EMBARKED ON AN AUTARCHIC PROGRAM TO AVOID DEPENDENCE ON NATURAL RUBBER. (KIPPER ALSO FEARS THAT AT SOME POINT RUSSIAN EXCESS SYNTHETIC PRODUCTION MIGHT GET DUMPED INTO WESTERN MARKETS.)

7. TURNING TO ANOTHER TOPIC, DR. KNOTE MENTIONED THAT HE HAD HAD A REPORT FROM KUALA LUMPUR QUOTING DR. SEKHAR, LEADER OF THE MALAYSIAN DELEGATION, TO THE EFFECT THAT HIS AIM AT THE RUBBER TALKS WOULD BE TO SECURE A GUARANTEED MINIMUM PRICE FOR NATURAL RUBBER. HE ASKED WHETHER WE HAD HAD ANY REPORTS ON THIS. KNOTE'S CONJECTURE WAS THAT SEKHAR WAS ANXIOUS TO BECOME A CABINET MINISTER AND SAW A SUCCESSFUL PERFORMANCE IN GENEVA AS THE WAY TO ACHIEVE IT.

8. ON THE QUESTION OF TACTICS AND MEETINGS, BOTH KIPPER AND KNOTE HAD NO PROBLEMS WITH THE US SUGGESTIONS. KNOTE ADDED, HOWEVER, HE THOUGHT IT WOULD BE A GOOD MOVE TO TRY TO INVOLVE THE EASTERN EUROPEAN COUNTRIES MORE IN THE MEETINGS AND PARTICULARLY TO ENCOURAGE CHINA TO PARTICIPATE IN THE NEGOTIATIONS. WE DID NOT DISCUSS HIS REASONING IN DEPTH, BUT HE SAID HE WOULD RAISE THE MATTER IN GENEVA AT THE CONSUMERS' MEETING.

9. COMMENT: THE GERMAN POSITION ON AN ICA FOR NATURAL RUBBER IS CLEAR. THEY DON'T LIKE IT, NEITHER DOES GERMAN INDUSTRY, BUT THEY WILL GO ALONG WITH NEGOTIATION.
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PAGE 03 BONN 03338 02 OF 02 231504Z

TIONS AND WOULD NO DOUBT JOIN IT, IF THE EC PUT ON THE PRESSURE. ABOVE ALL, THEY DO NOT WANT TO BE ISOLATED. ON THE OTHER HAND, THEY ARE IN NO HURRY TO GET AN ICA IN PLACE. THEY FORESEE MANY DIFFICULT PROBLEMS ON HOW THE ICA WOULD ACTUALLY BE MADE TO WORK AND AT THE SAME TIME KEEP GENERALLY WITHIN THE DISCIPLINES OF A RELATIVELY FREE MARKET SITUATION.

10. ON THE QUESTION OF TACTICS THE GERMANS WOULD LIKE TO GET AWAY FROM COMPLETE RELIANCE ON AN ANRPC OR OTHER PRODUCER DRAFT ICA. THEY WELCOME THE IDEA OF A CONSUMER DRAFT, BUT FEEL IT WOULD TAKE SOME TIME TO COMPLETE, AND FEAR THAT MOMENTUM MIGHT BUILD UP TOO STRONGLY FOR THE PRODUCER SCHEME. THEY ARE TOYING WITH THE IDEA OF SUGGESTING THAT THE UNCTAD SECRETARIAT BE ASKED TO COME UP WITH A DRAFT OF ITS OWN, AS A MEANS OF STRINGING OUT THE PROCESS UNTIL A CONSUMER DRAFT CAN BE READIED. IN THE MEANTIME THE GERMANS WOULD APPRECIATE HAVING US THINKING AND ESPECIALLY STUDIES, EVEN IF TENTATIVE, ON SOME OF THE BASIC ECONOMIC AND ORGANIZATIONAL QUESTIONS AS TO HOW AN ICA FOR NATURAL RUBBER COULD WORK.

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Message Attributes

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